

FINANCE REPORT FOR FINANCE STEERING GROUP, SENIOR MANAGEMENT TEAM AND MANAGEMENT BOARD DISCUSSION

June 2016

EXECUTIVE SUMMARY

Fee income continues to be ahead of budget, with a projection of an £720k increase to the original forecast made in November 2015. This would result in an annual data protection fee income for 2016/7 of £20.3m compared to an original forecast of £19.58m.

While there is some work to be done on budget profiling and coding, which will be undertaken as part of the review of the purchase management system and finance process as outlined below, the overall position indicates a potential cash handback at year end of around £1m. Additional areas of spend, including increased staff in enforcement and policy, external legal advice, recruitment costs and international travel have been identified and will be incorporated into the budget, however these are not expected to significantly alter the amount forecast to be handed back.

GENERAL POINTS

The budget is the first draft of both the departmental and monthly profile and agrees in total to that agreed with the DCMS in November 2015. The only amendment is the inclusion of a £40k budget for relocation costs. Based on this the full year budget is a cash surplus of £300k. This budget profile requires a full review and update in the light of current activities and in particular staffing costs across the departments. We are aware of a number of activities that require additional resource – in particular for legal fees for IT procurement and to fine tune the budget allowed for the changes in EU legislation. Requests for additional budgets and virements should be submitted by the end of August for inclusion in the half year results.

FINANCIAL OVERVIEW & KEY RISK AREAS

DP Income

Year to date DP income is £194k ahead of budget. The forecast remains unchanged from last month at £720k additional income for the year.

FOI Grant in Aid (GIA)

Grant in aid cash settlement has been agreed at £3750k for 16/17 – 18/19 inclusive. This is now paid monthly and monthly returns to and receipts from DCMS are up to date.

Cash Underspend (= cash handback)

We currently forecast an under spend against our budgeted income of circa £1m. As noted above there are additional activities for which budget needs to be provided - eg IT procurement costs & training and so it is anticipated that this underspend will be slightly reduced. The cash handback of £908k for 2015/16 was paid in July after the accounts were signed.

Staff and Recruitment

Staff costs are running below budget – this is due to profiling and will be reduced when the pay award is made next month. Comparing to 2015/16 the impact of the loss of rebate for national insurance can be seen – we anticipate NIC costs rising by some £300k based on year to date costs.

Training and recruitment are showing an over spend. This is an area that requires a review of the allocated budget and an analysis of costs to date.

Capital Spend – IT projects and IT revenue

Project expenditure is budgeted at £1,215k of which £650k is anticipated to be capital. Following on from the work done at year end we need to establish regular accounting for fixed assets and maintain the registers established in March. At the present time project expenditure is under budget, however IT revenue costs are over budget by a similar sum – most likely miscoding of project licensing costs. The IT revenue budget requires a review to reflect the impact of changes in contracts for services and any increases in the support contracts since the budget was set.

Movement of sponsorship from the MOJ to DCMS

The management agreement with DCMS is in the final stages of negotiation, but is not yet signed. Operationally we are adjusting to the new requirements regarding monthly reporting, but there are no significant changes in the operational parameters to which we must comply.

The budget for 2016/17 has been agreed with DCMS, with a three year award for GIA of £3.75m, including £650k capital allowance.

Financial systems

A recent report by Grant Thornton highlighted some internal control issues with these systems to resolve. In addition following the year end, it is clear that the system is not set up in the most efficient way for accounting purposes, and indeed is causing issues with cut off at month end, adding to the workload of completing management accounts. A major project to resolve all these issues is planned for the summer/autumn including training for budget holders and all staff who use the system. These plans require finance team resourcing issues to be resolved and work is in hand to recruit and increase capacity for this purpose.

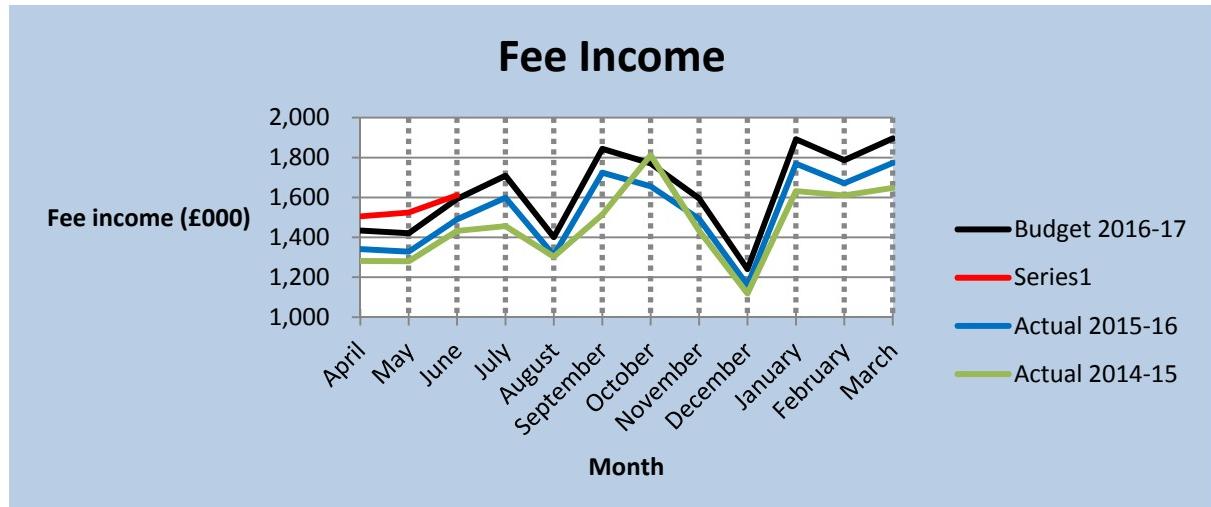
INCOME

Grant-in-aid for freedom of information activities

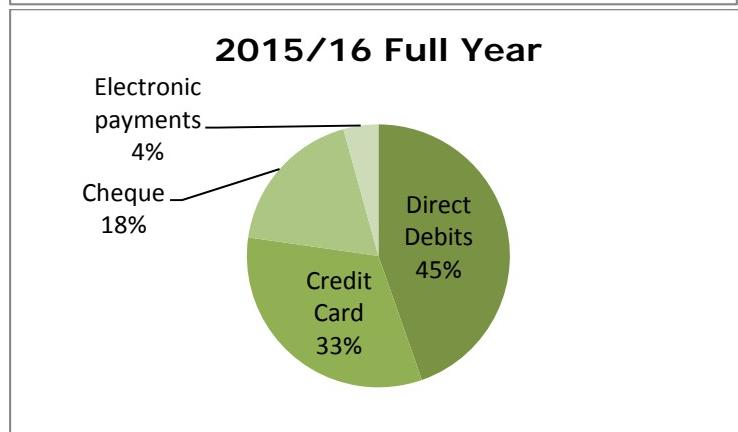
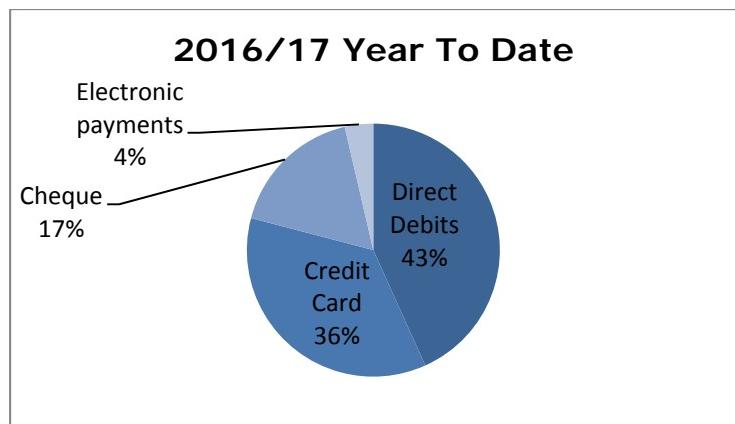
The grant-in-aid receipts are up to date. We now receive this monthly.

Data Protection fees processed

The chart below shows the actuals (red) vs our current budget (black) for the year 2016/17 and compared to the 2015/16 actuals (blue)



The year to date fee payment method split is shown below. The variance from last year to this is accounted for by the cut off error noted above. This will clear from the figures next month.



EXPENDITURE

Spending controls

The ICO is complying with the Cabinet Office Spending Controls Guidance v 4.0

<https://www.gov.uk/government/publications/cabinet-office-controls/cabinet-office-controls-guidance-version-40>

It should be noted that the Management Agreement with DCMS is not yet signed however we do not anticipate any major changes in the controls to which we must comply. That said work is needed to ensure the ICO has a complete and up to date list of spending controls to ensure we are compliant.

Total office costs

Overall office costs are within budget. Some routine analysis work is required to ensure costs are being coded both correctly and consistently with the budget.

Total staff FTE report and costs

Staff costs are £150k (3.8%) under budget at June. This reflects the profile of the budget which is front loaded – as the pay award kicks in in July we expect this “underspend” to reduce. The FTE numbers have not yet been updated.

Training and Recruitment

Total training and recruitment is over budget by £32k. An analysis of training and conference spend is ongoing. A budget is required to accommodate the ACIP training for enforcement of £72k for the year.

IT Costs – Service Delivery & IT projects

Across the total service delivery and IT projects budgets of £860k year to date, actual spend is £853k. A full review of coding and project analysis is required to ascertain if further budget is required and to capitalise project expenditure.

Communications Spend

This is over budget by 6.7%. This requires a review and may well be impacted by the issues we have with the temporary accruals account. That said the conference fee income budget needs to be re-profiled to match the dates of the conferences.

Banking, finance & audit costs

These costs are under budget by 39.6% - this is primarily due to the profile of the budget.

Legal, professional & other

These costs are under budget by £80k. At this stage of the year it is most likely due to budget profiling, however the accounts require a review to ensure costs are not being miscoded.

Depreciation & Amortisation

These costs are running under budget, but this will catch up to some extent as new assets are capitalised.

Civil Monetary Penalties

The current debtor of CMPs owed to the ICO as at 30 June 2016 is £2,625,830 of which £815,000 was provided as a bad debt at the end of March 2016 – net outstanding is £1,810,830 as follows:

B/f 2015-16	1,873,940
less bad debt provision 15/16	(815,000)
accounts balance	<u>1,058,940</u>
Issued penalties gross	1,209,400
Issued penalty increase post appeal	-
Issued prompt payment discount	(83,200)
Net	2,185,140
Receipts	(374,310)
Impaired	-
Balance	<u>1,810,830</u>
paid to consolidated fund in July	374,310

The creditor due to the consolidated fund (via DCMS) in respect of the above is £2,185,140 of which £374,310 was remitted in July. At the present time we do not impair and fully write off penalties until such time as we receive legal advice that the debt cannot be recovered. For prudent accounting purposes we were obliged to make provision for those debtors in liquidation at the end of the financial year; however these debts have not yet been fully written off as we are still chasing them. For clarity we will not make similar provision until the year end for current year debts.

Prompt Payment Statistics

Month	2016-17		number paid within				percentage suppliers paid within			
	supplier invoices	average time to pay	5 days	10 days	30 days	>30 days	5 days	10 days	30 days	>30 days
April	256	18.2	27	52	229	27	10.5%	20.3%	89.5%	10.5%
May	139	30.4	3	16	83	56	2.2%	11.5%	59.7%	40.3%
June	273	21.3	44	96	226	47	16.1%	35.2%	82.8%	17.2%
year to date	668	22.0	74	164	538	130	11.1%	24.6%	80.5%	19.5%

Public sector payment policy is to pay 80% of undisputed invoices within 5 days and 100% within 30 days. Once systems issues are resolved we will see improvements in these statistics. May figures were particularly low due to staff absence.

FINANCE SERVICE UPDATE

As reported to Audit Committee in June, the focus for the finance team in the upcoming months is to improve service levels and to drive efficiencies from the new finance and purchase management systems.

With the Annual Report completed and year end closed out, there is a need for a time of consolidation after a period of significant change both in terms of resources (staff turnover and changes in the Head of Finance role) as well as changes to IT systems following the implementation of the new finance and purchase management systems.

This work will focus in five key areas:

1) Ensuring that the finance team is adequately resourced

Steps have already been taken to backfill roles of members of the team who have left, and additional resource has been brought in to support transactional work to free up time to focus on projects to improve systems and processes.

Work is underway to make sure that additional recruitment can place over the summer, including the revision of job descriptions, and a further review of responsibilities will be undertaken within the next month.

In addition, the interim Head of Finance will be working more days to lead projects outlined below to revise processes and make systems improvements to make sure these are fit for purpose and aligned to the ICO's priorities.

2) Review of the controls in the purchase management approvals system to make sure they are fit for purpose and do not have over reliance on key individuals.

Although controls are in place, these are inefficient, relying on manual processes and key individuals, such as the Head of Finance, to sign off purchases. A thorough review of the process is required to maximise the potential of the purchase management system brought in last November.

This will involve reconfiguring the system, reviewing authorisations levels; ensuring business areas take responsibility for sign off of purchases and additional training for users of the purchase management system. A complete review of the rules for approvals will be undertaken as well as

making sure there is sufficient segregation of duties for managing and paying suppliers.

3) Improvements to management reporting to make sure there is adequate budgetary controls and management information available

Issues with the configuration of the purchase management system have meant a large amount of manual adjustments at month end to account for accruals and prepayments and to reconcile cut off.

To resolve this, the system needs to be reconfigured to ensure accruals are correctly accounted for and additional training provided to users. In the meantime, a reconciliation of the ledger and accruals is taking place regularly.

4) IT support for finance systems

Improvements have already been made in this area, with better working relationships with Northgate and their supplier M-hance. Once work has been undertaken in the team to identify improvements and changes that need to be made, time will be booked with suppliers to make changes and provide additional training as required. This will need to be managed closely with Finance working closely with IT to ensure appropriate resource is available when needed.

5) Ensuring current process are reviewed so that they are aligned to the new system, and are maximising efficiencies

The team are working to review current processes to ensure they are 'fit for purpose' and this includes areas which have caused concern for staff such as expenses claims as well as those which will resolve some workload issues in the team, for example the automation of payroll posting, improvement in records management, scanning of invoices and sustainability reporting.

This work is being overseen by the Finance Steering Group and led by the Head of Finance and there will be a report made to September and December Audit Committees. It is anticipated that these issues will have been resolved by the December Audit Committee.

Simon Entwistle
July 2016

MANAGEMENT REPORT

For the Three Months Ending 30 June 2016

	Year To Date				Full Year				Prior year
	BV1 approved budget	Actual	Variance	Var %	BV1 approved budget	Forecast	Variance	Var %	2015-16 £
	£	£	£		£	£	£	(£)	£
GRANT IN AID	937,500	937,500	-	-	3,750,000	3,750,000	-	-	3,730,768
DP FEE INCOME	4,446,581	4,640,711	194,130	4.4%	19,580,000	20,300,000	720,000	3.7%	18,311,232
DRIPA INCOME	82,500	82,500	-	-	330,000	330,000	-	-	330,000
BANK INTEREST	-	82	82	-	-	-	-	-	-
TOTAL INCOME	5,466,581	5,660,793	194,212	3.6%	23,660,000	24,380,000	720,000	3.0%	22,372,000
RENT	189,818	196,651	(6,833)	(3.6%)	759,270	759,270	-	-	746,048
RATES & BUILDING INSURANCE	60,000	58,483	1,517	2.5%	240,000	240,000	-	-	236,183
SERVICE CHARGES	7,644	6,926	718	9.4%	30,576	30,576	-	-	32,176
CAR PARKING	22,500	2,734	19,766	87.8%	90,000	90,000	-	-	80,779
HEAT & LIGHT	26,632	18,222	8,410	31.6%	106,528	106,528	-	-	174,069
WATER	4,000	5,744	(1,744)	(43.6%)	16,000	16,000	-	-	16,317
CLEANING	15,000	15,519	(519)	(3.5%)	60,000	60,000	-	-	60,358
SECURITY	14,750	13,482	1,268	8.6%	59,000	59,000	-	-	58,502
WASTE	1,014	1,609	(595)	(58.7%)	4,056	4,056	-	-	5,443
STORAGE	2,500	-	2,500	100.0%	10,000	10,000	-	-	16,815
REPAIRS & MAINTENANCE	23,750	9,685	14,065	59.2%	95,000	95,000	-	-	101,556
MOTOR COSTS	-	(142)	142	-	-	233	(233)	-	970
KITCHEN	5,375	5,929	(554)	(10.3%)	21,500	21,500	-	-	41,127
FURNITURE	3,368	1,529	1,839	54.6%	13,472	13,472	-	-	7,968
GENERAL EQUIPMENT	13,750	2,116	11,634	84.6%	55,000	55,000	-	-	13,516
STATIONERY	8,537	12,536	(3,999)	(46.8%)	34,147	34,147	-	-	34,930
POSTAGE	15,211	14,973	238	1.6%	60,845	60,845	-	-	69,606
DOCUMENT DESTRUCTION	2,000	1,762	238	11.9%	8,000	8,000	-	-	5,984
OTHER	-	20,401	(20,401)	-	-	-	-	-	11,207
TOTAL OFFICE COSTS	415,849	388,159	27,690	6.7%	1,663,394	1,663,627	(233)	(0.0%)	1,713,554
SALARIES	2,975,583	2,900,776	74,807	2.5%	12,325,333	12,325,333	-	-	10,864,109
OVERTIME	17,935	24,403	(6,468)	(36.1%)	71,750	71,750	-	-	100,144
PENSION	600,704	590,209	10,495	1.7%	2,412,116	2,412,116	-	-	2,170,213
NATIONAL INSURANCE	311,223	268,330	42,893	13.8%	1,244,891	1,244,891	-	-	745,893
AGENCY STAFF	16,691	41,991	(25,300)	(151.6%)	36,164	36,164	-	-	344,945
SALARIES INCOME	-	(38,636)	38,636	-	-	-	-	-	(118,912)
PENSION INCOME	-	(8,347)	8,347	-	-	-	-	-	(24,757)
NATIONAL INSURANCE INCOME	-	(4,286)	4,286	-	-	-	-	-	(10,104)
NON EXEC BOARD MEMBER	12,625	10,587	2,038	16.1%	50,500	50,500	-	-	46,707
TOTAL STAFF COSTS	3,934,761	3,785,027	149,734	3.8%	16,140,754	16,140,754	-	-	14,118,238

MANAGEMENT REPORT

For the Three Months Ending 30 June 2016

	Year To Date				Full Year				Prior year
	BV1 approved budget	Actual £	Variance £	Var %	BV1 approved budget	Forecast £	Variance £	Var %	2015-16 £
RECRUITMENT	12,466	20,934	(8,468)	(67.9%)	100,000	100,000	-	-	69,071
RELOCATION EXPENSES	13,333	10,465	2,868	21.5%	40,000	40,000	-	-	-
HEALTH & SAFETY	6,250	10,524	(4,274)	(68.4%)	25,000	25,000	-	-	44,002
FURTHER EDUCATION	1,500	7,016	(5,516)	(367.7%)	6,000	6,000	-	-	360
TRAINING COURSES	7,526	334	7,192	95.6%	30,104	30,104	-	-	50,440
CONFERENCES	21,000	44,216	(23,216)	(110.6%)	84,000	84,000	-	-	103,235
MANAGEMENT DEVELOPMENT	6,000	6,630	(630)	(10.5%)	24,000	24,000	-	-	21,036
TOTAL TRAINING AND RECRUITMENT	68,075	100,119	(32,044)	(47.1%)	309,104	309,104	-	-	288,144
HOSTING, WEB AND TELEPHONY	176,325	199,124	(22,799)	(12.9%)	716,323	716,323	-	-	728,360
APP & DESKTOP SUPPORT	170,000	180,479	(10,479)	(6.2%)	680,000	680,000	-	-	731,905
SOFTWARE LICENSING	71,250	224,725	(153,475)	(215.4%)	285,000	285,000	-	-	300,177
SECURITY CONTRACT	12,500	14,380	(1,880)	(15.0%)	50,000	50,000	-	-	35,457
NOTIFICATION PRINTING	38,750	32,465	6,285	16.2%	155,000	155,000	-	-	216,938
MANAGED PRINT	10,558	(1,250)	11,808	111.8%	42,231	42,231	-	-	53,443
HARDWARE MAINTENANCE	20,000	44,602	(24,602)	(123.0%)	80,000	80,000	-	-	53,110
GOV SECURE INTERNET	32,500	-	32,500	100.0%	130,000	130,000	-	-	149,548
TELEPHONY CALLS & BROADBAND	25,390	24,406	984	3.9%	101,559	101,559	-	-	130,822
TOTAL IT COSTS	557,273	718,931	(161,658)	(29.0%)	2,240,113	2,240,113	-	-	2,399,760
ICE CRM DEVELOPMENT	100,000	2,199	97,801	97.8%	400,000	400,000	-	-	156,092
DOCUMENT STORAGE SOLUTION	43,750	1,982	41,768	95.5%	175,000	175,000	-	-	4,358
DIGITAL DELIVERY	5,000	1,275	3,725	74.5%	20,000	20,000	-	-	124,609
INFRASTRUCTURE	137,500	(3,970)	141,470	102.9%	550,000	550,000	-	-	548,702
OTHER PROJECT WORK	17,500	25,652	(8,152)	(46.6%)	70,000	70,000	-	-	332,795
NPS RESOURCE	-	106,965	(106,965)	-	-	-	-	-	-
TOTAL PROJECT SPEND (INC CAPITAL)	303,750	134,103	169,647	55.9%	1,215,000	1,215,000	-	-	1,166,556
CAMPAIGNS, MEDIA RELATIONS & PR	11,250	10,503	747	6.6%	45,000	45,000	-	-	27,580
MEDIA MONITORING	11,250	7,983	3,267	29.0%	45,000	45,000	-	-	71,084
DESIGN & PRINT	13,750	21,176	(7,426)	(54.0%)	55,000	55,000	-	-	66,918
DISTRIBUTION	10,000	14,916	(4,916)	(49.2%)	40,000	40,000	-	-	24,900
SURVEYS	16,500	(10,181)	26,681	161.7%	66,000	66,000	-	-	111,191
CONFERENCES GENERAL	26,000	39,165	(13,165)	(50.6%)	104,000	104,000	-	-	288,952
CONFERENCE INCOME	(11,000)	(975)	(10,025)	91.1%	(44,000)	(44,000)	-	-	(57,151)
CONFERENCES EUDP	-	-	-	-	50,000	50,000	-	-	-
ICON DEVELOPMENT	6,000	-	6,000	100.0%	24,000	24,000	-	-	5,178
STAFF EVENTS	1,500	14,076	(12,576)	(838.4%)	6,000	6,000	-	-	27,651
WEB MAINTENANCE	7,500	2,275	5,225	69.7%	30,000	30,000	-	-	49,397
TOTAL COMMUNICATIONS	92,750	98,938	(6,188)	(6.7%)	421,000	421,000	-	-	615,700

MANAGEMENT REPORT

For the Three Months Ending 30 June 2016

	Year To Date				Full Year				Prior year
	BV1 approved budget	Actual	Variance	Var %	BV1 approved budget	Forecast	Variance	Var %	2015-16 £
	£	£	£		£	£	£		
BANK INTEREST TO CONSOLIDATED FUNDS	-	82	(82)	-					
BANK CHARGES	7,500	345	7,155	95.4%	30,000	30,000	-	-	30,956
CARD PROCESSING CHARGES	18,180	19,400	(1,220)	(6.7%)	72,720	72,720	-	-	75,726
BAD DEBT WRITE OFFS	-	-	-	-	-	-	-	-	5,410
EXTERNAL AUDIT	7,500	-	7,500	100.0%	30,000	30,000	-	-	32,500
INTERNAL AUDIT	9,342	5,835	3,507	37.5%	37,368	37,368	-	-	36,642
CORPORATION TAX	-	-	-	-	-	-	-	-	61
SUSPENSE	-	-	-	-	-	-	-	-	-
SUSPENSE	#N/A	#N/A	#N/A	#N/A	#N/A	-	#N/A	#N/A	-
TOTAL FINANCIAL COSTS	42,522	25,662	16,860	226.2%	170,088	170,088	-	-	181,295
TRAVEL UK	99,455	88,879	10,576	10.6%	418,500	-	418,500	100.0%	380,385
TRAVEL OVERSEAS	11,611	25,063	(13,452)	(115.9%)	46,500	418,500	(372,000)	(800.0%)	76,093
TRAVEL INCOME - UK	-	(2,590)	2,590	-	-	46,500	(46,500)	-	(6,404)
TRAVEL INCOME - OVERSEAS	-	(3,615)	3,615	-	-	-	-	-	(16,302)
TOTAL TRAVEL	111,066	107,737	3,329	3.0%	465,000	465,000	-	-	433,772
LEGAL	74,851	55,287	19,564	26.1%	349,500	349,500	-	-	223,118
LEGAL COSTS RECOVERED	-	(13,656)	13,656	-	-	-	-	-	(7,289)
LIBRARY & SUBSCRIPTIONS	23,300	15,192	8,108	34.8%	93,200	93,200	-	-	72,720
PROFESSIONAL SUBS	4,250	207	4,043	95.1%	17,148	17,148	-	-	18,727
SUBSISTENCE	-	44	(44)	-	-	-	-	-	239
RESEARCH	12,500	6,719	5,781	46.2%	50,000	50,000	-	-	38,367
PRIVACY SEALS	-	-	-	-	-	-	-	-	50,655
DP REGULATION FUTURES PROJECT	-	-	-	-	-	-	-	-	20,000
PROFESSIONAL SERVICES	54,040	26,940	27,100	50.1%	216,325	216,325	-	-	155,067
STAFF RECOGNITION	2,218	12	2,206	99.5%	8,871	8,871	-	-	8,901
TOTAL LEGAL, PROFESSIONAL & OTHER	171,159	90,745	80,414	47.0%	735,044	735,044	-	-	580,505
TOTAL COSTS	5,697,205	5,449,421	247,784	4.3%	23,359,497	23,359,730	(233)	(0.0%)	21,497,524
OPERATING CASH SURPLUS	(230,624)	211,372	(441,996)	191.7%	300,503	1,020,270	720,233	239.7%	874,476
								paid	907,776
DEPRECIATION	241,250	187,839	53,411	22.1%	965,000	965,000	-	-	1,002,015
AMORTISATION	250,000	224,116	25,884	10.4%	1,000,000	999,411	589	0.1%	821,079
LOSS ON DISPOSAL OF FIXED ASSETS	-	(1,202)	1,202	-	-	(1,202)	1,202	-	340,211
TOTAL NON CASH COSTS	491,250	410,753	80,497	16.4%	1,965,000	1,963,209	1,791	0.1%	2,163,305

